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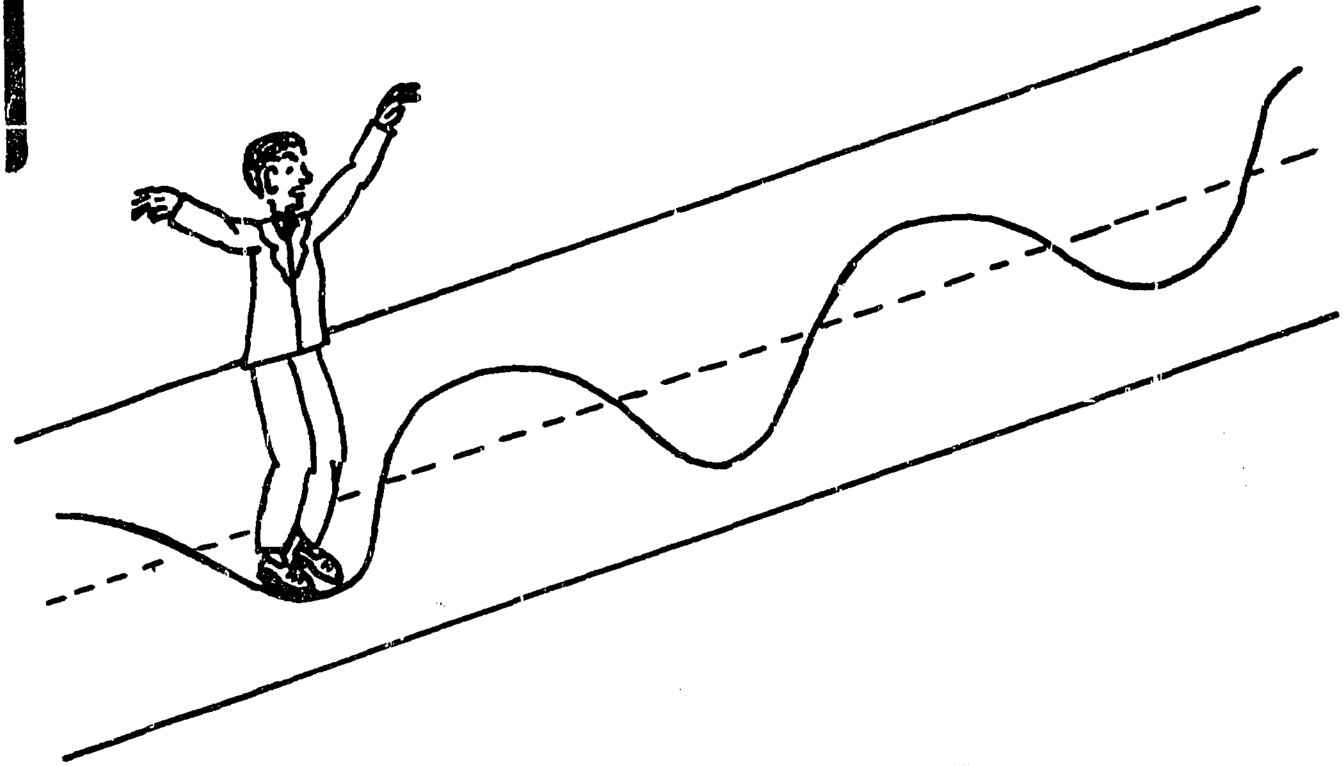
ABSTRACT

"Tightrope" is a simulation based on economic stability and growth in a country. Several small groups of students, acting as Economic Advisory Councils, make fiscal and monetary policy decisions for their country based on their knowledge of business cycles, monetary policy, and fiscal policy. In each of the four rounds the Advisory Councils study a chart of Economic Indicators to determine the state of the nation's economy, fill out a Decision and Analysis Chart according to their perceptions of the economy, and survey the effects of their decisions to decide the new, over-all state of the economy. In class discussion, each Council presents its point of view; an economist's "correct" answers are provided by the teacher and discussion continues. There is no student reward besides the satisfaction of guiding the country successfully. The game materials are included in the teacher's guide and consist of a set of directions for students, and, for each round, transparencies, Decision and Analysis Charts, and Economic Indicators Charts. The guide provides the teacher with introductory information and a discussion of economic options and causal relationships possible in each round. (JH)

El Paso Public Schools



TIGHTROPE

a simulation game

El Paso Public Schools

El Paso, Texas

TEACHER'S GUIDE

for Tightrope,

a Simulation Game in

Economics

Published by the authority of the Board of Education

El Paso, Texas

TIGHTROPE

A

Simulation Game

Designed to Culminate the Study

of

Monetary and Fiscal Policy

as

Applied to Business Cycles

This game was developed during a government curriculum workshop by Larry Baskind, Ann Buddington, Melvin Erickson, Ala Kay Hill, and Geraldine Murphy, teachers in the El Paso Public Schools. Dr. Philip Duriez, Associate Professor of Economics, The University of Texas at El Paso, and Director of the National Science Foundation Cooperative College-School Science Project in Economics, served as the special consultant for the development of this game. The data shown on the Economic Indicator Charts were taken from the 1967 Supplement to Economic Indicators printed for the use of the Joint Economic Committee for the 90th Congress.

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INSTRUCTIONS TO THE TEACHER FOR PLAYING TIGHTROPE

INTRODUCTION

Tightrope is a simulation of maintaining the economic stability and growth of a country. A group of students called the Economic Advisory Council makes decisions regarding the fiscal and monetary policies of a nation.

Tightrope is designed to be used after students have studied business cycles, monetary policy, and fiscal policy which are found in Chapters 13, 14, 15, and 16 in the textbook, Economics in Action. It is suggested that the teacher use this game at the end of Unit III. (See Order of Teaching Units for Government, Division of Instuction bulletin.)

The game consists of:

1. Teacher materials
   - a. A teacher's guide
   - b. Four transparencies which supply correct answers for each round
2. Student materials
   - a. Directions for students
   - b. Decision and analysis charts
   - c. Economic indicator charts for rounds A, B, C, D

MECHANICS OF THE SIMULATION

Students are divided into groups of three. Three is an arbitrary number, but this number will encourage maximum student involvement. Each group represents an economic council formed to advise the political powers of a country on economic actions to be taken when the country is in a state of depression, inflation, stable growth, or war. Each advisory group acts independently of all other groups.

The simulation is divided into four rounds which the teacher announces and regulates. Each round includes the following steps to be taken by the advisory councils:

1. Establish the economic condition of the country. The council should study the Economic Indicator Chart to determine whether the economy is in a state of depression, inflation, or stability.
2. Fill out the Decision and Analysis Chart. The council should select only the choices from the options shown on the Decision Chart which will help correct the economic conditions decided upon in Step 1. Considerations should be given only to immediate and observable effects. If the effect is long-range, it should be disregarded. In the small square under each item of the chart, the students should write either INCREASE, DECREASE, or NO EFFECT. For example:
   - a) The council found that economic conditions of a depression exist from studying Economic Indicator Chart, Round A.
   - b) After discussion, the council selected several steps to be taken from the list of options. These options were circled with pencil. One decision made was to lower corporate taxes.
   - c) The council analyzed the effect of lower corporate taxes on

personal consumption. It decided there would be no observable effect, and the words NO EFFECT were written in the square. Personal savings were discussed. The decision of NO EFFECT was once again used. Investment by business was considered. The council decided that the action to lower corporate taxes would increase investment by business, so the word INCREASE was written in the appropriate square,etc.

3. Analyze all decisions made for over-all effects on the economy. The council should now look at the results recorded on the chart and determine whether there has been an expansion or contraction of the economy, a change in government deficit or surplus, and an increase or decrease in the Gross National Product. The correct words should be written in the appropriate box provided under the result column.

CLASS DISCUSSION OF GROUP CONCLUSIONS

Each round should end with a class discussion. Differences of opinions may be apparent. Each council should be given ample opportunity to explain its actions, why those actions were taken, and the observable results.

END OF ROUND A

At the end of Round A, the teacher should place the transparency on the overhead projector. Since this transparency provides the answers, which are the opinions of an economist, discussion may continue. Remind the students that only short-term or observable effects are considered in this game.

There are a total of four Economic Indicator Charts, so that four rounds may be played. Each round is conducted in the same manner as the one described above. The only difference is that each round presents a different set of economic conditions. Remember that this is an open-ended game with no student reward other than the fact that he, as a member of the Economic Advisory Council, had advised the powers of government correctly.

Note: In the concluding discussions following each round, it should be brought out that there are no perfect answers. Actual government decisions reflect various conditions, such as political situations, campaign promises, and honest differences of opinion among economists and policy-makers.

INSTRUCTIONS TO THE STUDENT FOR PLAYING TIGHTROPE

INTRODUCTION

The game Tightrope involves you in the economic activities and decisions of your country. Your class is divided into groups, and each group will act as an Economic Advisory Council to the national government. The object of the game is to make recommendations that will maintain the economic stability and growth of your country. Background reading concerning business cycles, monetary policy, and fiscal policy is found in Chapters 13, 14, 15, and 16 of your textbook, Economics in Action.

INSTRUCTIONS

1. Determine the economic condition of the country. Your council should study the Economic Indicator Chart to decide whether the economy is in a state of depression, inflation, or stability.

2. Fill out the Decision and Analysis Chart. On the left of this chart are fourteen options from which you may choose as many as you wish in order to correct the economic conditions as determined from your study of the Economic Indicator Chart. Circle only the options you have decided upon to improve the economic condition of the country.

3. Discuss what effect each option would have upon the analysis categories. For example, suppose your council chose to lower personal taxes. Circle this option on your Decision and Analysis Chart. Then trace the effect upon each of the economic indicators by writing either the word INCREASE, DECREASE, or NO EFFECT in the appropriate box. For example, lowering personal taxes allows people to have more money; therefore,personal consumption would increase as would personal saving. The word INCREASE in this case, would be written in the boxes under Personal Income, Personal Consumption,and Personal Savings. The remaining economic indicators for this and any other options chosen should be analyzed in the same manner. Consideration should be given only to immediate or observable effects. If the effect is long-range, it should be disregarded.

4. The council should sum up the total results of its action on the economy by filling in the three boxes on the right of the Decision and Analysis Chart. Has the economy expanded or contracted as a result of the council's actions? Did the action produce an increase or decrease in the national budget deficit or surplus? Did the Gross National Product increase or decrease? Write the appropriate term in each box provided under the result column.

5. Each council should be prepared to defend its decision in a class discussion which occurs upon the completion of each round.

DECISION AND ANALYSIS CHART

OPTIONS	PERSONAL INCOME	PERSONAL CONSUMPTION	PERSONAL SAVINGS	BUSINESS NET PROFITS	BUSINESS INVESTMENT	INDUSTRIAL PRODUCTION	GOVERNMENT INCOME	GOVERNMENT EXPENDITURE	WHOLESALE PRICE INDEX	CONSUMER PRICE INDEX	MONEY SUPPLY	UNEMPLOYMENT
1. RAISE CORPORATE TAXES	NE	NE	NE	DEC	DEC	NE	INC	INC	NE	NE	NE	NE
2. LOWER CORPORATE TAXES	NE	NE	NE	INC	INC	INC	DEC	NE	NE	NE	NE	DEC
3. RAISE PERSONAL TAXES	DEC	DEC	DEC	NE	NE	NE	INC	INC	NE	NE	NE	NE
4. LOWER PERSONAL TAXES	INC	INC	INC	NE	NE	NE	DEC	NE	NE	NE	NE	NE
5. INCREASE GOVERNMENT SPENDING	INC	INC	INC	INC	INC	NE	INC	INC	NE	INC	INC	DEC
6. DECREASE GOVERNMENT SPENDING	NE	NE	NE	DEC	DEC	DEC	NE	DEC	NE	DEC	DEC	INC
7. LOWER DISCOUNT RATE	NE	NE	NE	INC	INC	INC	NE	NE	NE	INC	INC	DEC
8. RAISE DISCOUNT RATE	NE	NE	NE	NE	DEC	NE	NE	NE	NE	DEC	DEC	NE
9. RAISE RESERVE REQUIREMENTS FOR BANKS	NE	NE	NE	NE	DEC	NE	NE	NE	NE	DEC	DEC	NE
10. LOWER RESERVE REQUIREMENTS FOR BANKS	NE	NE	NE	INC	INC	INC	NE	NE	NE	INC	INC	DEC
11. SELL SECURITIES	NE	NE	NE	NE	NE	NE	NE	NE	NE	DEC	DEC	NE
12. BUY SECURITIES	NE	NE	NE	NE	NE	NE	NE	NE	NE	INC	INC	NE
13. NO ACTION NECESSARY												
14. DIRECT CONTROLS NECESSARY			FREEZES ALL SECTORS AT CURRENT LEVEL									

OVER-ALL RESULTS ON THE ECONOMY

EXPANSION OR CONTRACTION

INCREASE OR DECREASE IN GOVERNMENT DEFICIT OR SURPLUS

GROSS NATIONAL PRODUCT INCREASE OR DECREASE

EXPLANATION OF OPTIONS FOR THE USE OF THE TEACHER

The first decision required of the Economic Advisory Council is to determine the state or condition of the economy at the end of the period in question. Possible conditions include (1) drastic contraction or depression, (2) mild contraction or recession, (3) overexpansion or uncontrolled inflation, (4) moderate inflation and moderate unemployment, or (5) a condition of adequate stability and reasonable growth. After the council has made this decision, it must then choose the options (shown on left-hand side of the Decision Analysis Chart) it will use to correct the current situation.

Round A, for example, can easily be identified as a period of drastic contraction (depression). GNP and Personal Consumption continue to drop sharply and unemployment is at a dangerous high. Industrial Production, Investment by Business, and Business Net Profits are showing signs of recovery, but are at dangerously low levels.

The Decision and Analysis Chart shows the results of each action. In each case INCREASE or DECREASE is used if the result of action taken is immediate and observable. If the results are long-range, nil, or questionable, NO EFFECT is shown.

The following is an explanation of each of the actions shown on the Decision and Analysis Chart:

Raise Corporate Taxes

This action will transfer money from corporations to the government, thereby increasing Government Income. This tax money will decrease the funds which businesses have for investment and will directly decrease Business Net Profits. Industrial Production will probably show a downward trend in the long run, but the immediate result is NO EFFECT. The same will be true of Unemployment. No money has been injected into or withdrawn from the economy, and, therefore, the Money Supply is not affected. There may be a long-range effect on Personal Income, Personal Consumption, Personal Savings, the Wholesale Prices Index, and the Consumer Price Index but the immediate result in these areas is NO EFFECT. Government Expenditure is shown as increasing for the simple reason that government spends all (or more) than it receives.

Lower Corporate Taxes

This action will transfer money from the government to the corporations, thereby decreasing Government Income. It does not naturally follow that Government Expenditures will drop when income drops. Therefore, this area is shown as NO EFFECT. Funds which businesses have for Investment will increase and this money will increase Industrial Production and Business Net Profits. More labor will be needed thus decreasing Unemployment. No immediate effect is seen on Personal Income, Personal Consumption, Personal Savings, the Wholesale Price Index and the Consumer Price Index, although all of these would probably be affected in the long run. Money Supply is not affected because money has only been transferred from government to corporation.

Raise Personal Taxes

In this case, money would be transferred from consumers to the government, thereby decreasing Personal Income, Personal Consumption, and Personal Savings. Government Income will increase and Government Expenditure will also increase. A secondary effect can be seen on Industrial Production, Business Net Profits, and Business Investment, but the immediate and observable result is NO EFFECT. The same long-range effect might be seen on the Wholesale Price Index and the Consumer Price Index, but the immediate result is NO EFFECT. NO EFFECT can be seen on Unemployment and the Money Supply is also not affected.

Lower Personal Taxes

The first result of this action is to increase Personal Income, Personal Consumption, and Personal Savings because take-home pay has been increased. Government Income is obviously decreased, but Government Expenditure is unaffected All other areas may be affected in the long run, but the immediate result is NO EFFECT.

Increase Government Spending

This action injects new money into the economy, thereby increasing the Money Supply. This new money may go to business firms for contracts to build dams, a new veterans' hospital, etc., thus increasing investment money for businesses and increasing Business Net Profits. Eventually Industrial Production would rise, but the immediate result is NO EFFECT. Part of this new money would go to individuals in the form of pay increases for government employees, increase in social security payments, etc., thus increasing Personal Income, Personal Consumption, and Personal Savings. The increase in personal taxable income and corporate taxable income will increase the income of government, and it is obvious that Government Expenditure increases. When the Money Supply is increased, more purchasing of goods and services will result, thus driving the Consumer Price Index up. The Wholesale Price Index may rise eventually, but the immediate result is NO EFFECT. A decrease in Unemployment would occur if corporations hired labor to expand physical facilities using newly acquired investment money.

Decrease Government Spending

The Money Supply will be decreased by this action, and obviously Government Expenditure will show a decrease. Curtailed business activity will be reflected in a decrease in Industrial Production, Business Investment, and Business Net Profits. Unemployment will increase as industry has less demand for labor. Personal Income, Personal Consumption, and Personal Savings will show no immediate effect. Government Income is unaffected. The Consumer Price Index will show a decrease because less money is available. The Wholesale Price Index would be affected only in the long run and the immediate result is NO EFFECT.

Lower Discount Rate

This action increases the Money Supply as local banks are allowed to borrow money from the Federal Reserve at a lower rate of interest. The banks will, in turn, make cheaper money available to businessmen. The business community will respond by borrowing money to increase Industrial Production, Business Net Profit, and Business Investment. Government Income and Government Expenditure are not directly affected as this action is in the private sector of the economy. Personal Consumption, Personal Savings, Personal Income, Wholesale Prices, and Unemployment might all eventually respond to this action, but such results are not immediate or observable. All these, then, will show NO EFFECT. Consumer Prices would increase because more money is in circulation.

Raise Discount Rate

The Money Supply would be decreased by this action because local banks would have to pay higher rates of interest for money borrowed from the Federal Reserve. Businessmen would borrow less at the higher rate demanded by the local banks,thus creating a decrease in Business Investment. Industrial Production and Business Net Profits would not show an immediate effect. Government Income and Government Expenditure are not affected because this action is in the private sector. Personal Consumption, Personal Savings, Personal Income, the Wholesale Price Index,and Unemployment might all eventually respond to this action,but such results are not immediately observable. All these, then, will show NO EFFECT. The Consumer Price Index would decrease because less money is in circulation.

Raise Reserve Requirements for Banks

This action decreases the Money Supply and will produce the same effects as raising the discount rate.

Lower Reserve Requirements for Banks

The Money Supply is increased by this action and all effects are the same as those which result from lowering the discount rate.

Sell Securities

The Money Supply will be decreased by this action and money will flow into the Federal Reserve Banks. These securities are sold on the open market and may be purchased by a variety of banks, insurance companies, foundations,and corporations. Because the money will come from diverse areas of the economy, it is impossible to show any immediate effect in any category except Money Supply and the Consumer Price Index. As Money Supply is decreased the Consumer Price Index will also be decreased.

Buy Securities

This action produces the opposite effect of selling securities and, therefore, Money Supply and the Consumer Price Index will show increases. Here again, tracing the routes of this money into its diverse channels makes it impossible to show immediate effects in all other categories.

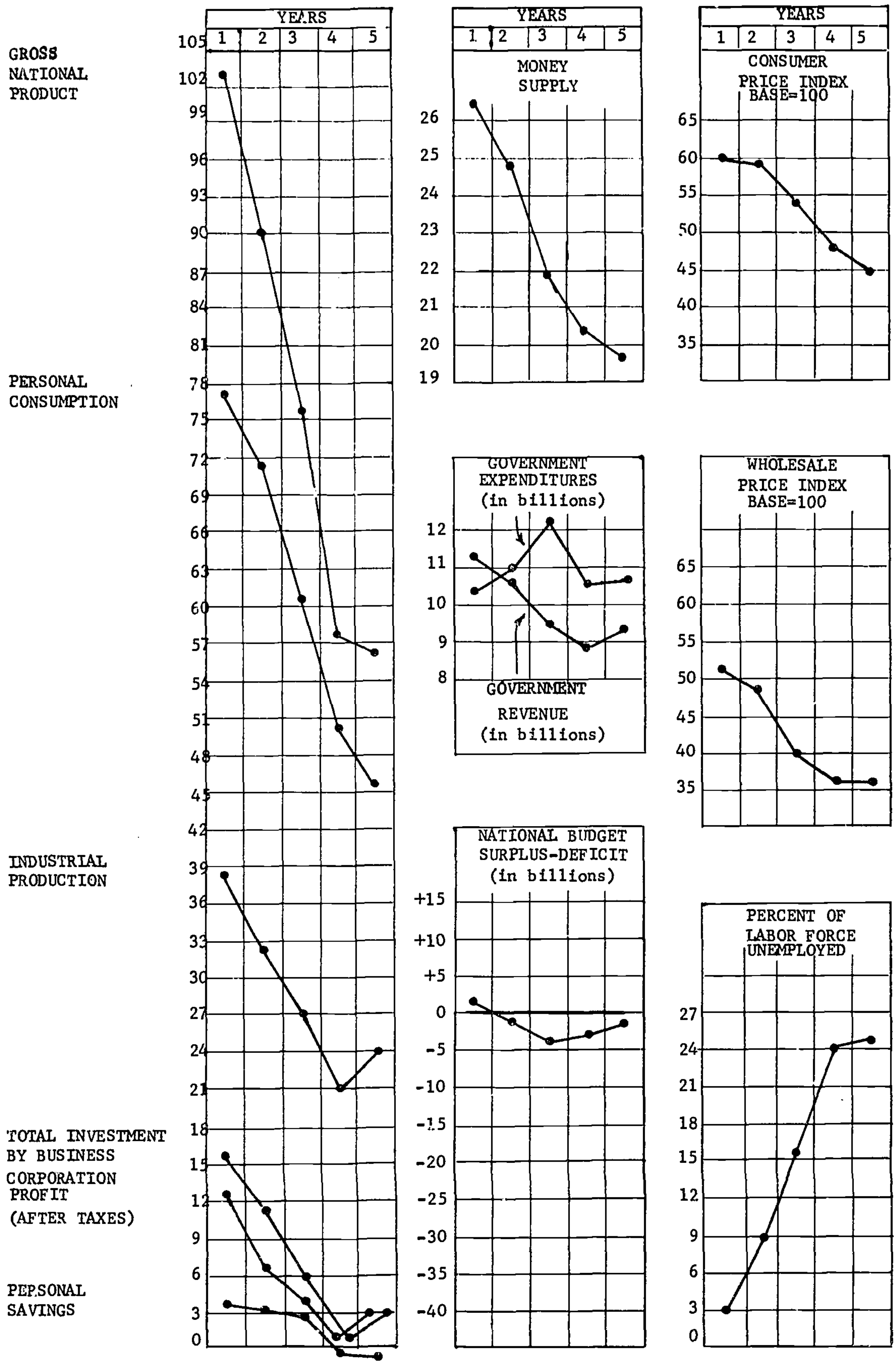
No Action Necessary

This action will be chosen by the council if and when it decides the current condition shows acceptable growth and reasonable stability.

Direct Controls

This is an option of l st resort used only in cases of extreme emergency, mainly war. In such a situation, the demand for consumer goods far outruns the supply, causing prices to rise to unacceptable levels. By employing direct controls the government interferes with supply and demand because the normal functioning of the market system is detrimental to the economy. Direct controls include price, wage, and rent ceilings, credit controls, and materials allocation.

Economic Indicators Round A



TIGHTROPE
ANALYSIS ROUND A
DECISION AND ANALYSIS CHART

	Personal Income	Personal Consumption	Personal Savings	Business Net Profits	Business Investment	Industrial Production	Government Income	Government Expenditure	Wholesale Price Index	Consumer Price Index	Money Supply	Unemployment
1. Raise Corporate Taxes												
2. Lower Corporate Taxes	NE	NE	NE	INC	INC	INC	DEC	NE	NE	NE	NE	DEC
3. Raise Personal Taxes												
4. Lower Personal Taxes	INC	INC	INC	NE	NE	NE	DEC	NE	NE	NE	NE	NE
5. Increase Government Spending	INC	INC	INC	INC	INC	NE	INC	INC	NE	INC	INC	DEC
6. Decrease Government Spending												
7. Lower Discount Rate	NE	NE	NE	INC	INC	INC	NE	NE	NE	INC	INC	DEC
8. Raise Discount Rate												
9. Raise Reserve Requirements for Banks												
10. Lower Reserve Requirements for Banks	NE	NE	NE	INC	INC	INC	NE	NE	NE	INC	INC	DEC
11. Sell Securities												
12. Buy Securities	NE	NE	NE	NE	NE	NE	NE	NE	NE	INC	INC	NE
13. No Action Necessary												
14. Direct Controls Necessary												

OVER-ALL RESULTS ON THE ECONOMY

EXPANSION

EXPANSION OR CONTRACTION

DEFICIT INCREASE

INCREASE OR DECREASE IN GOVERNMENT DEFICIT OR SURPLUS

INCREASE

GROSS NATIONAL PRODUCT INCREASE OR DECREASE

TIGHTROPE
DEBRIEFING FOR ROUND A

PURPOSE: To provide visually the best monetary and fiscal actions to counteract the economic problems as established on the graphs for Round A.

OBJECTIVE: To develop student understanding of the economic consequences of monetary and fiscal actions on the various sectors of the economy and their effect on the overall economy.

I. ECONOMIC INDICATIONS IN ROUND A

The five year period depicted in Round A is from 1929 through 1933, the first five years of the Great Depression. As shown on the graphs, GNP declined from $103 billion to a low of $56 billion, and prices fell drastically as a result of decreased consumption. Corporate profits and investment also declined, unemployment rose rapidly, and personal savings were used up. The money supply also contracted and the velocity of circulation slowed. Government expenditures rose slightly even though government revenues declined. But the national goal at this time was to maintain a balanced budget, so the government cut spending to decrease the deficit.

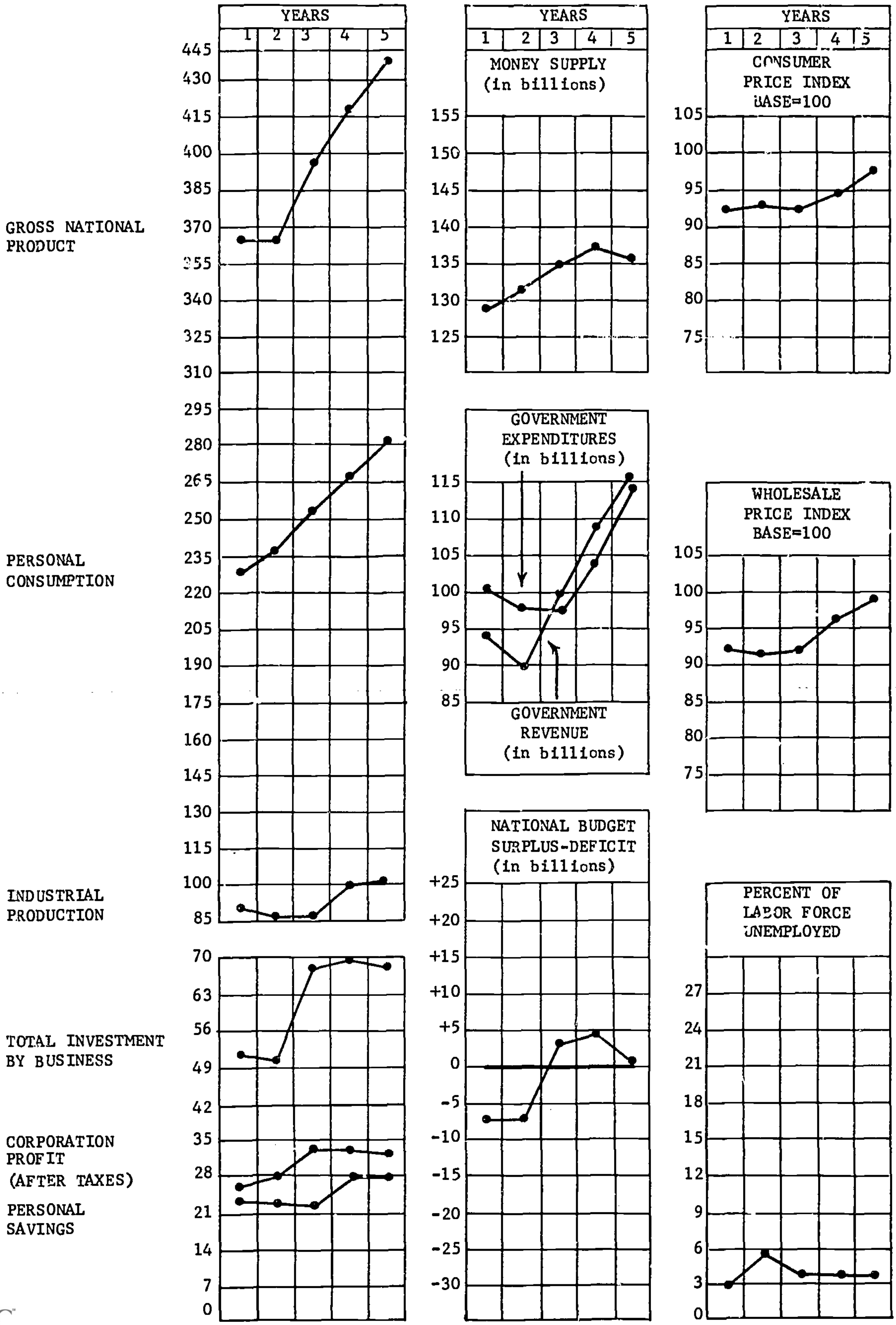
II. CORRECT MONETARY AND FISCAL DECISIONS

In order to counteract the drastic downward fluctuation of the economy, the councils should have advised the government to lower corporate and personal taxes (options 2 and 4) to leave buying power in the hands of the private sector. Even though these actions would further reduce government revenues, the councils should have advised the government to greatly increase spending (option 5), regardless of an increase in a budget deficit. These three actions would (1) increase personal income, consumption, and savings, (2) increase corporate profits, investment and production, (3) stimulate a price increase, (4) increase the money supply, and (5) decrease unemployment.

In addition, the monetary actions of lowering the discount rate (option 7) to make borrowing easier, lowering the reserve requirement for banks (option 10) to make more money available for lending, and buying securities on the open market (option 12), thus increasing deposits in commercial banks and making more money available for the multiple expansion of bank deposits should be taken.

These actions would provide for expansion of the overall economy and an increase in GNP by revitalizing the flow of money, goods, and services. The increase in budget deficit that occurs can be adjusted or cyclically balanced at some future inflationary period. The important thing at this time is to take actions that will stabilize the economy and stimulate growth.

Economic Indicators Round B



TIGHTROPE
ANALYSIS ROUND B
DECISION AND ANALYSIS CHART

	Personal Income	Personal Consumption	Personal Savings	Business Net Profits	Business Investment	Industrial Production	Government Income	Government Expenditure	Wholesale Price Index	Consumer Price Index	Money Supply	Unemployment
1. Raise Corporate Taxes												
2. Lower Corporate Taxes	NE	NE	NE	INC	INC	INC	DEC	NE	NE	NE	NE	DEC
3. Raise Personal Taxes												
4. Lower Personal Taxes												
5. Increase Government Spending												
6. Decrease Government Spending												
7. Lower Discount Rate	NE	NE	NE	INC	INC	INC	NE	NE	NE	INC	INC	DEC
8. Raise Discount Rate												
9. Raise Reserve Requirements for Banks												
10. Lower Reserve Requirements for Banks	NE	NE	NE	INC	INC	INC	NE	NE	NE	INC	INC	DEC
11. Sell Securities												
12. Buy Securities												
13. No Action Necessary												
14. Direct Controls Necessary												

OVER-ALL RESULTS ON THE ECONOMY

EXPANSION

EXPANSION OR CONTRACTION

DEFICIT INCREASE

INCREASE OR DECREASE IN GOVERNMENT DEFICIT OR SURPLUS

INCREASE

GROSS NATIONAL PRODUCT INCREASE OR DECREASE

TIGHTROPE
DEBRIEFING FOR ROUND B

PURPOSE: To provide visually the best monetary and fiscal actions to counteract the economic problems as established on the graphs for Round B.

OBJECTIVE: To develop student understanding of the economic consequences of monetary and fiscal actions on the various sectors of the economy and their effect on the total economy.

I. ECONOMIC INDICATIONS ROUND B

The five years encompassed in Round B are 1953-57. This period was one of virtually stable growth with slight price rises until 1957, at which time the graphs show a leveling off in industrial production, a slight decline in corporation profits and business investment, and some contraction of the money supply. Government revenues exceeded government expenditure during the last three years of the period resulting in a budget surplus. These things indicate a slight recession.

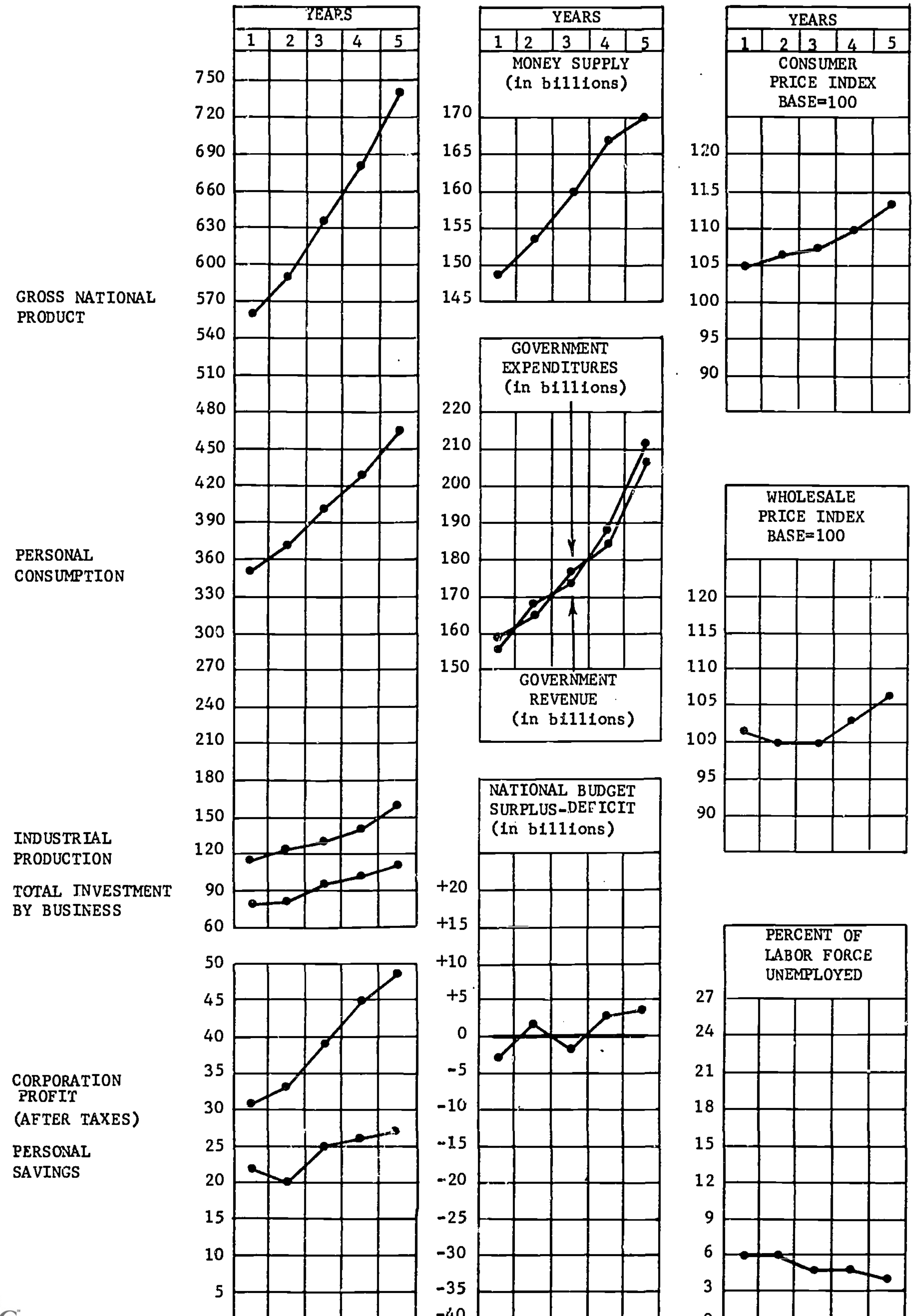
II. CORRECT MONETARY AND FISCAL DECISIONS

The councils should have advised the lowering of corporate taxes (option 2) to increase corporate profits and stimulate business investment and production. Two monetary actions should be used to increase money supply. Lowering the discount rate (option 7) will probably have the effect of reducing commercial interest rates, encouraging borrowing for business investment and increased production. Lowering the reserve requirement (option 10) will increase the amount of money available for lending, thus increasing the money supply through the multiple expansion process.

No further actions are indicated because the graphs show only a slight recessionary turn. Should the economy not respond to these actions, then other options such as lowering personal taxes, increased government spending and buying securities on the open market might be brought into play.

The over-all effect on the economy of the three recommended actions would be expansionary and serve to increase the GNP. Since the budget is almost in balance, the lowering of corporate taxes would probably create a slight deficit in the budget.

Economic Indicators
Round C



TIGHTROPE
ANALYSIS ROUND C
DECISION AND ANALYSIS CHART

	Personal Income	Personal Consumption	Personal Savings	Business Net Profits	Business Investment	Industrial Production	Government Income	Government Expenditure	Wholesale Price Index	Consumer Price Index	Money Supply	Unemployment
1. Raise Corporate Taxes	NE	NE	NE	DEC	DEC	NE	INC	INC	NE	NE	NE	NE
2. Lower Corporate Taxes												
3. Raise Personal Taxes	DEC	DEC	DEC	NE	NE	NE	INC	INC	NE	NE	NE	NE
4. Lower Personal Taxes												
5. Increase Government Spending												
6. Decrease Government Spending	NE	NE	NE	DEC	DEC	DEC	NE	DEC	NE	DEC	DEC	INC
7. Lower Discount Rate												
8. Raise Discount Rate	NE	NE	NE	NE	DEC	NE	NE	NE	NE	DEC	DEC	NE
9. Raise Reserve Requirements for Banks	NE	NE	NE	NE	DEC	NE	NE	NE	NE	DEC	DEC	NE
10. Lower Reserve Requirements for Banks												
11. Sell Securities	NE	NE	NE	NE	NE	NE	NE	NE	NE	DEC	DEC	NE
12. Buy Securities												
13. No Action Necessary												
14. Direct Controls Necessary												

OVER-ALL RESULTS ON THE ECONOMY

CONTRACTION

EXPANSION OR CONTRACTION

SURPLUS

INCREASE OR DECREASE IN GOVERNMENT DEFICIT OR SURPLUS

INCREASE

GROSS NATIONAL PRODUCT INCREASE OR DECREASE

TIGHTROPE
DEBRIEFING FOR ROUND C

PURPOSE: To provide visually the best monetary and fiscal actions to counteract the economic situation as established on the graphs for Round C.

OBJECTIVE: To develop student understanding of the economic consequences of monetary and fiscal actions on the various sectors of the economy and their effect on the total economy.

I. ECONOMIC INDICATIONS ROUND C

The time period in Round C is 1961-65 inclusive. All indicators are rising except unemployment which shows the economy is in a rather rapid expansionary phase of the business cycle. The upward movement of Wholesale and Consumer Price Indexes in connection with an increase in the money supply indicate a slight inflationary trend.

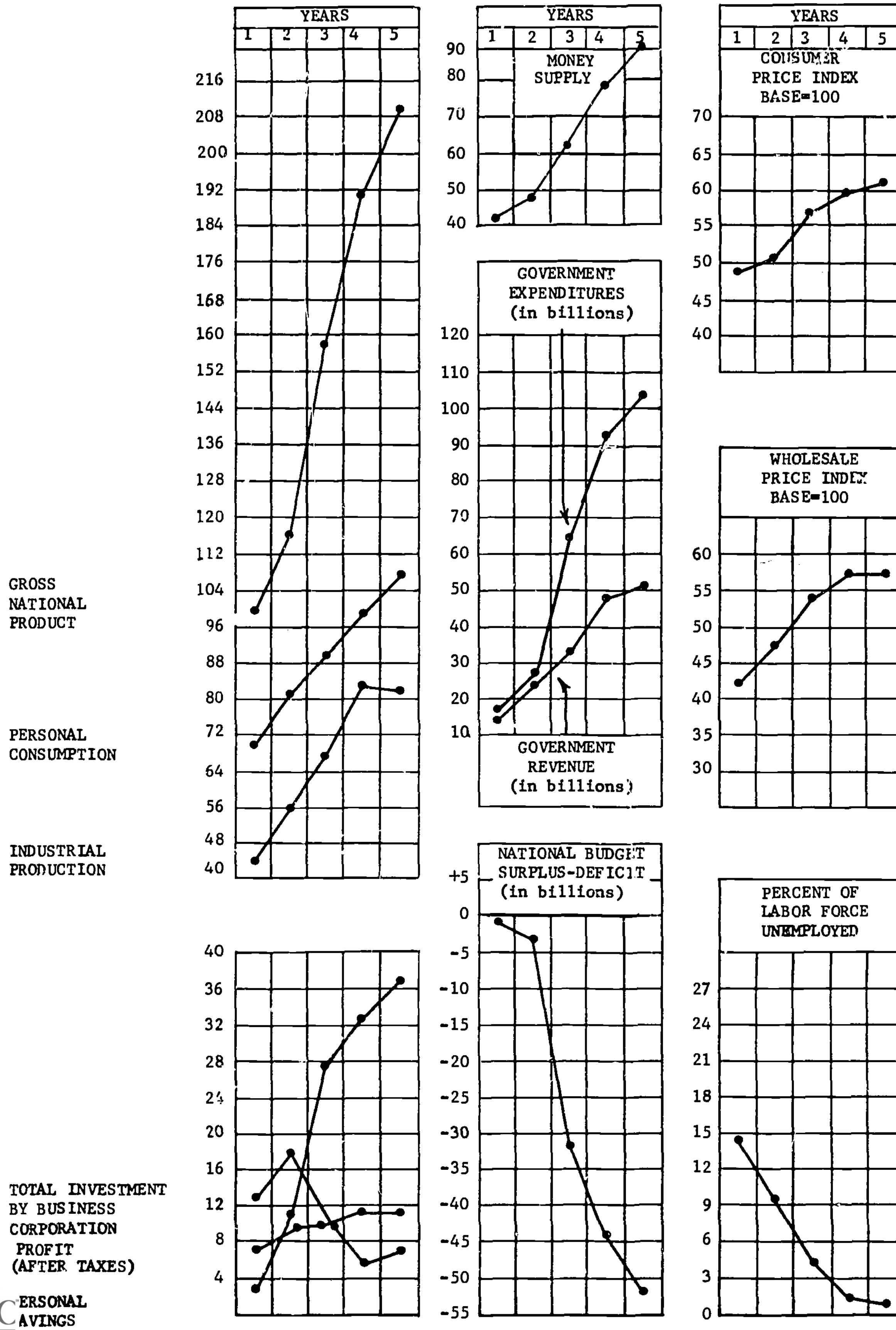
II. CORRECT MONETARY AND FISCAL ACTIONS

There are a number of monetary and fiscal actions the government might be advised to take. Fiscal actions would include raising corporate taxes (option 1), raising personal taxes (option 3), and decreasing government spending (option 6). These actions would serve to "dampen down" the economy by decreasing (1) personal and corporate disposable income, (2) consumption, (3) business investment, and (4) production. Increased government revenues coupled with a decrease in government expenditure would result in a decrease of the money supply.

Monetary actions that could be utilized would be raising the discount rate (option 8) and raising the reserve requirement (option 9). These would result in decreasing business investment, prices, and money supply. Finally, the open market committee should sell government securities (option 11) to further contract the money supply.

All of these actions will be contractionary on the over-all economy, and a government budget surplus will result. Since the economic councils are primarily interested in growth along with stability, actions or combinations of actions should not restrain the economy beyond the point of stopping the inflationary trend. The degree of action is extremely important in this case so as not to throw the economy into a recession.

Economic Indicators
Round D



TIGHTROPE
ANALYSIS ROUND D
DECISION AND ANALYSIS CHART

	Personal Income	Personal Consumption	Personal Savings	Business Net Profits	Business Investment	Industrial Production	Government Income	Government Expenditure	Wholesale Price Index	Consumer Price Index	Money Supply	Unemployment
1. Raise Corporate Taxes	NE	NE	NE	DEC	DEC	NE	INC	INC	NE	NE	NE	NE
2. Lower Corporate Taxes												
3. Raise Personal Taxes	DEC	DEC	DEC	NE	NE	NE	INC	INC	NE	NE	NE	NE
4. Lower Personal Taxes												
5. Increase Government Spending												
6. Decrease Government Spending	NE	NE	NE	DEC	DEC	DEC	NE	DEC	NE	DEC	DEC	INC
7. Lower Discount Rate												
8. Raise Discount Rate	NE	NE	NE	NE	DEC	NE	NE	NE	NE	DEC	DEC	NE
9. Raise Reserve Requirements for Banks	NE	NE	NE	NE	DEC	NE	NE	NE	NE	DEC	DEC	NE
10. Lower Reserve Requirements for Banks												
11. Sell Securities	NE	NE	NE	NE	NE	NE	NE	NE	NE	DEC	DEC	NE
12. Buy Securities												
13. No Action Necessary												
14. Direct Controls Necessary				FREEZES ALL SECTORS AT CURRENT LEVEL								

EXPANSION

OVER-ALL RESULTS ON THE ECONOMY

EXPANSION

EXPANSION OR CONTRACTION

LARGE DEFICIT INCREASE

INCREASE OR DECREASE IN GOVERNMENT DEFICIT OR SURPLUS

LARGE INCREASE

GROSS NATIONAL PRODUCT INCREASE OR DECREASE

TIGHTROPE
DEBRIEFING FOR ROUND D

PURPOSE: To provide visually the best monetary and fiscal actions to counteract the economic problems as established on the graphs for Round D.

OBJECTIVE: To develop student understanding of the economic consequences of monetary and fiscal actions on the various sectors of the economy and their effect on the total economy.

I. ECONOMIC INDICATIONS ROUND D

The graphs for Round D depict the state of the economy during the war years 1940-44. The rapid sharp increase in GNP, the rise in industrial production and the rapid drop in unemployment resulted from the ten-fold increase in government expenditure for defense purposes. This in turn resulted in a large expansion of the money supply, a tremendous deficit in the national budget, and inflation, as shown by the rise in Consumer and Wholesale Price Indexes. Lack of consumer goods due to war production resulted in a spectacular rise in personal savings, and even stronger inflationary pressures.

II. CORRECT MONETARY AND FISCAL DECISIONS

Immediate and definitive fiscal and monetary action is called for in this round. The advisory councils should have recommended options 1, 3, 6, 8, 9, 11, and 14. Corporate and personal taxes should be raised in order to decrease consumption and investment, and increase government revenue. A decrease in government spending and raising the discount rate and reserve requirements are both necessary to contract the money supply and to precipitate a decrease in prices. The Federal Reserve open market committee should sell government securities to further restrict the creation of money. Since all indications show tremendous expansion, direct controls should also be applied to stabilize wages, rents and prices.

The overall result on the economy would be a general contraction, a decrease in the deficit, and a leveling off of GNP growth.

In the interest of history, teachers might wish to point out that during the war the government did enact price, wage, and rent controls and rationing. In addition, corporate and personal taxes were raised and government securities were sold. But because of the paramount goal of national security, the government could not decrease spending and the Fed did not raise the discount rate (which remained at ½%), probably in an effort to stimulate private borrowing and investment in war production. However, the reserve requirement was higher than it has ever been (26% for city banks) which did help some to control the money supply and inflation. Despite these efforts, the war years were highly inflationary.

DECISION AND ANALYSIS CHART

	Personal Income	Personal Consumption	Personal Savings	Business Net Profits	Business Investment	Industrial Production	Government Income	Government Expenditure	Wholesale Price Index	Consumer Price Index	Money Supply	Unemployment
1. Raise Corporate Taxes												
2. Lower Corporate Taxes												
3. Raise Personal Taxes												
4. Lower Personal Taxes												
5. Increase Government Spending												
6. Decrease Government Spending												
7. Lower Discount Rate												
8. Raise Discount Rate												
9. Raise Reserve Requirements for Banks												
10. Lower Reserve Requirements for Banks												
11. Sell Securities												
12. Buy Securities												
13. No Action Necessary												
14. Direct Controls Necessary												

OVER-ALL RESULTS ON THE ECONOMY

EXPANSION OR CONTRACTION

INCREASE OR DECREASE IN GOVERNMENT DEFICIT OR SURPLUS

GROSS NATIONAL PRODUCT INCREASE OR DECREASE

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7. Lower Discount Rate												
8. Raise Discount Rate												
9. Raise Reserve Requirements for Banks												
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